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Edexcel GCE

Economics and Business

Advanced

Unit 4B: The Wider Economic Environment and Business

Wednesday 23 June 2010 – Morning Time: 1 hour 30 minutes	Paper Reference 6EB04/01
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You must have:
Insert containing all source material (enclosed).

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*
- You may use a calculator.

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Quality of written communication will be taken into account in the marking of your response to Questions 7(a) and 7(b) in Section B. These questions are indicated with an asterisk*
– *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Candidates are expected to be familiar with Evidence A to I for this paper before the examination.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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SECTION A

Decision making report.

Evidence A to I was pre-issued before the date of the examination.

Using ALL the evidence and your own knowledge, answer all six questions (total 30 marks)

Time allowed (35 minutes).

Additional Evidence J

The Beer Orders

Mergers and acquisitions gave the largest UK beer brewers large market shares in the 1980s. In addition, these brewers expanded into beer distribution and retailing, for example by owning many pubs and by signing exclusive supply agreements (ties) with independent pubs in exchange for low interest loans. This gave them market power and created the potential for restrictive practices. 5

The Monopolies and Mergers Commission (since renamed the Competition Commission) investigated the industry. Its report found that a complex monopoly (effectively a cartel) existed in favour of brewers who owned tied houses or who had tying agreements with independent pubs. After this investigation, The Beer Orders imposed new regulations. Brewers owning more than 2000 pubs were required to either sell their breweries or to end exclusive supply agreements with half of their pubs above the 2000 limit by late 1992. In addition, pub tenants with exclusive supply agreements were to be allowed to buy one brand of "guest beer" from any supplier in the open market at wholesale prices. The orders also forbade ties on non-alcoholic beers, low-alcoholic beers and non-beer drinks. The aim of this was to increase the level of competition in the market. 10
15

Larger brewers either sold off their breweries or their pubs. Throughout the 1990s, a number of new businesses (pubcos) were formed relying on cheaply borrowed money to fund the purchase of previously brewery owned pubs. The pubcos imposed their own exclusive supply agreements on tenants. After "credit crunch" many pubcos are in negative equity (the market value of their pubs is less than the mortgages taken out against them). Tenants are charged between two and three times the open market price for their supplies. 20

The operation and continued relevance of the Beer Orders was reviewed by the Director General of Fair Trading (DGFT) in 2000. He observed that, since the 1989 Report, the brewing and pub retailing industries had undergone significant structural change leading to an improvement in competition. In particular, over a third of the UK's pubs had been transferred into the ownership of retail pubcos which had acquired a degree of buyer power in relation to the national brewers. 25

The beer orders and the "guest beer provision" were withdrawn on 17 January 2003.



1 What is meant by the term 'restrictive practice' (see Additional Evidence J, line 5)?

(Total for Question 1 = 2 marks)

2 What is meant by the term 'monopoly' (see Additional Evidence J, line 7)?

(Total for Question 2 = 2 marks)



3 Briefly explain **two** ways the Competition Commission can protect the interests of consumers.

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(Total for Question 3 = 5 marks)

4 Briefly comment on the price elasticity of demand for alcoholic drinks (see Evidence E).

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(Total for Question 4 = 4 marks)



5 Assess the likely impact of recession on the UK pub industry.

Dotted lines for writing the answer.

(Total for Question 5 = 8 marks)



6 Assess the likely impact of the 1989 Beer Orders on prices and competition.

Dotted lines for writing the answer.

(Total for Question 6 = 9 marks)

TOTAL FOR SECTION A: 30 MARKS



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TURN OVER FOR SECTION B



SECTION B

Decision making report.

Using ALL the evidence provided and your own knowledge, answer both parts of the question (total 50 marks).

Time allowed (55 minutes).

***7 (a) Assess the case for an increase in beer taxation in the UK.**

(20)

A series of horizontal dotted lines for writing the answer.



Lined writing area with horizontal dashed lines.



(b) To what extent should the National Health Service (NHS) charge patients for the treatment of alcohol related conditions?

(30)

Area for handwritten response with horizontal dotted lines.



Lined writing area with horizontal dashed lines.



Handwriting practice area with 20 horizontal dotted lines.

(Total for Question 7 = 50 marks)

TOTAL FOR SECTION B: 50 MARKS
TOTAL FOR PAPER: 80 MARKS

